COMMUNICATIONS

SCIENTIFIC FARMING AND SCIENTIFIC FINANCING

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The complaint is general that American agriculture has not kept pace with the growth of population, that its progress has not been commensurate with industrial progress, and that the phenomenal growth of the city has frequently been achieved at the expense of the country. The fact is, enthusiastic back-to-the-soilers notwithstanding, that farming has its drawbacks. This is not peculiar to the United States. In 1897, according to Mulhall, forty per cent of the world's population was engaged in agriculture and thirty-one per cent of the world's capital was employed in it but its share of the world's profits was only twenty per cent. To-day with the large increase in land values and farm equipment, the disparity should be greater if anything. The question why farming is not as profitable, nor as attractive in other respects, as it should be, is variously answered, depending upon the point of view. The railroad, the middleman, society, the government, the farmer, each receives a share of the blame; the farmer a little more than his share.

Doubtless our rural transportation facilities are far from the best. The wide divergence in the price of farm products between producer and consumer is also indisputable. It must further be admitted that the farmer himself has displayed a woeful want of progressiveness and has not readily responded to the best thought dealing with life on the farm. But all this is not enough to account for the bankruptcy of country life. The cause is more insidious and more deep seated.

But for the fact that it is frequently disregarded or treated as of secondary importance, it would seem superfluous to say that capital is needed in farming as it is in any industrial enterprise. To farm properly and profitably—scientifically, if you will—the land must be improved and brought to a high state of productive-

ness; buildings should be ample and in good repair; and equipment modern and adequate. All this apart from the initial investment in the farm. In addition the farmer must have money to put in his crop; to live till the crop matures; to harvest it; to market it. Granting that his crop is good, in what position is he to market it advantageously if he is obligated to sell to his creditors, as the case very often is, or compelled to sacrifice it in order to meet his urgent debts? Again, even with fair prices, how is the farmer to make a profit on his operations if he pays all kinds of prices for his capital? Does it not seem a little unreasonable to presume that agriculture can thrive under conditions that would wipe our railroads off the map, shut the doors of our factories, and paralyze all legitimate commercial activity? What farming really needs is not so much scientific farming as scientific financing.

The lack of an adequate system of agricultural credit is set down by President Roosevelt's Country Life Commission, as one of the most prominent deficiencies of country life. "The present banking system," says the Commission's report, "tends to take the money out of the open country and to loan it in town or to town-centered interests." Once a year, it is true, Wall Street is thrown into a financial fever over the shipment of money to the interior for "crop moving," but this seasonal inflow of funds has little, if any, effect on the rural credit situation. To begin with, the money comes the wrong time of the year. Instead of being available in the spring when the farmer could put it to profitable use, he gets the money in the fall, just in time to pay the debts he contracted at the beginning of the season at ruinous rates. In any event, the money remains in the interior but a month or two and soon finds its way back into the vaults of the city banks.

How the migratory tendency of money toward the city is abetted by our national banking system was demonstrated at a recent hearing before the Congressional Committee on Banking and Currency. It was shown that out of $10,662,564.78 on deposit in forty national banks, in one congressional district in Minnesota, $6,446,715.01 was in time deposits not subject to check. As these banks are not permitted to make mortgage loans, a good part of this money, if not idle, has in all probability gone to the reserve cities to be loaned out on call at two per cent or thereabouts, while the farmers in that district must do as best they can without their

much-needed funds. The same is no doubt true of most every part of the country.

Because of the further tendency for capital to seek investment in industrial and commercial enterprises rather than on the farm, the farmer is by no means sure to get his fair share even of the loanable funds locally available. The reason is not far to seek. The farmer is not an easy customer to deal with. His methods of doing business are a little primitive, and the distance from town makes proper attention to farm loans inconvenient if not exceedingly difficult. Moreover, the farmer and the banker have little opportunity to get together. They do not belong to the same church, lodge, club, or social set. Perhaps the farmer is not even a depositor. He is not influential enough to command credit and, outside of the righteousness of his cause and the intrinsic merit of the security, has little else to offer for it. It is easy to see, therefore, that as a competitor for credit, the farmer is not an unqualified success.

At bankers' conventions it has been customary to discuss the relations of the banker and the farmer. These discussions generally end in talk. Sometimes not even in that. A fair sample of the interest of the average banker in the farmer was shown at the Farmers' Week at Ithaca last winter held under the auspices of the New York State Agricultural College. The program called for a conference of country bankers, with the usual discussion as to how the country banker can help the farmer. The only bankers present were a professor at the college, an editor of an agricultural paper, and the writer.

The inherent difficulty lies in the misconception of the functions of banking. Banking and credit are not synonymous. While banks do a credit business, the ordinary bank cannot adequately or efficiently fulfil the functions of a credit institution. Viewed in the light of a purely private enterprise, the interests of the banker and of the farmer are not always identical. The first duty of a bank is to protect its creditors, the depositors. It must see that its investments are safe and secure. That done, its business is to make as much profit as possible for its owners or stockholders. The use to which its money will be put by the borrower is of minor importance, and frequently of no importance at all. The banker's chief lookout is that his money is not idle and that it is well secured, and his policy

is shaped, as a rule, by other considerations than the legitimate needs of the borrower or the interests of the community.

That our banking institutions do not satisfy the legitimate needs of the farmer is generally admitted, though seldom sufficiently emphasized. The effect of our peculiar banking and currency system on the farmer is tersely summed up by Professor E. W. Kemmerer in the *American Economic Review* of December, 1912. "Farming business," he says, "is pre-eminently seasonal in character; the farmers over the greater part of the country need funds most at about the same times of the year, i. e., the fall and spring. A great increase in the demand for currency and capital, say in the fall, under an inelastic currency and credit system like our own, means to the farmer, highest interest rates at just the time when he needs most to borrow, greatest scarcity of cash at just the time when his need for cash is the most urgent, and prices depressed by a tight money market at the time of the year when he has most to sell."

In many of our western states the legal and prevailing rate of interest is twelve per cent, not reckoning the bonus, commission, expenses, and other subterfuges invented by the ingenious money lender, and designed to circumvent the usury laws or to mollify the public conscience. Conditions in the East are no better. Many instances have been brought to my attention in New York, New Jersey, Connecticut, and Massachusetts, where farmers have been paying twenty-five per cent and more for accommodations. There are localities not many miles from New York where the farmer cannot obtain a loan on a gilt-edged mortgage because the local savings banks, "the banks of the people," find it more convenient to invest in the bonds of the Singapore gas works or to do business with the local real estate operators.

Continental Europe has found the solution of this problem, as have other countries outside of Europe, in the creation of banking systems specially designed to answer their agricultural requirements. The one underlying principle of all these systems is the paramountcy of the borrower's interests consistent with sound business policy. Another noteworthy feature is the complete or partial separation of land credit and agricultural credit, so-called. The first is long-time credit secured by mortgage. The second is short-time credit, and the promissory note is ordinarily the sole form of security. The distinction is important as bearing upon the development of

credit institutions. Land credit, being more or less impersonal, permits of the non-cooperative system and seems to find it preeminently favorable for its best development. Short-time credit, on the other hand, is in its nature personal and the relationship between debtor and creditor more intimate. The cooperative system has therefore been found more suitable for this form of credit and has been almost universally adopted, with such modifications, however, as the traditions, the temperament, and the needs of the individual country demanded.

The oldest land credit institutions extant are the German *Landschaften*. They are the creation of Frederick the Great, who decreed the compulsory association of the noble land owners for cooperative credit. The first *Landschaft* was organized in 1769. A distinctive feature of these associations is that they loan not money, but credit. They issue bonds to the borrowing member for the amount of his loan, which may be as much as two-thirds of the value of his land, and he sells these bonds either in the open market or to banks specially organized for the purpose. No loan can be refused to a member, and its repayment depends entirely upon the pleasure of the borrower. The interest rate on these bonds rarely exceeds four per cent. The only charge to the borrower is a premium of one-half to one per cent to defray administrative expenses.

The *Landschaften* now number eighteen. A fair idea of the magnitude of their operations can be gained from the fact that in 1906 their outstanding bonds amounted to over nine hundred million dollars. These bonds sell on the basis of three and a half per cent and lower, which is proof of their popularity with the investing public. Strangely enough, this sytem of land credit does not appear to have met with favor outside of Germany and has remained exclusively a German institution. It seems possible that its aristocratic lineage and the traces it bears of German feudalism have militated against a more general adoption of the *Landschaft* system.

Probably the best type of non-cooperative land credit institution is the *Crédit Foncier*. This bank, which has virtually a government monopoly of land credit in France, was organized in 1852. It is a limited liability company with a capital of two hundred million francs and with the right to issue bonds to the extent of its loans. It loans on mortgage up to fifty per cent of the land value. The

interest rate is fixed at four per cent a year and, by means of an ingenious amortization plan, the payment of a small additional percentage extinguishes the entire indebtedness after a period of years. Outside of the loans to communes and municipalities, the *Crédit Foncier* in 1910 granted 6,595 mortgage loans aggregating 142,911,556.79 francs, and its bonds in circulation at the close of the year aggregated a total of 2,279,530,950 francs. Notwithstanding the extremely low interest rate, the *Crédit Foncier* is a paying institution. In the year above mentioned it declared a dividend of 6.4 per cent on its large capitalization besides putting five per cent of the net profits into the reserve fund. It is inconceivable that American financiers should have overlooked so fruitful a field for investment and so excellent an opportunity for signal public service.

However, it is cooperative agricultural credit as typified by the *Raiffeisen* system, and in a lesser degree by the *Schulze-Delitzsch* system, that has exercised the most potent influence in the regeneration of agriculture the world over.

In 1849 Frederick William Raiffeisen conceived the very unorthodox idea that the real capitalists were the masses and that the bankers and big financiers were only capitalists by sufferance. He concluded that the masses could supply their own credit requirements, provided a workable plan could be devised to bring the lender and the borrower together. Inspired, no doubt, by the wonderful success of the *Landschaften*, he resolved to adapt the principles of cooperative credit to the needs of the poorer class of farmers.

But the peasants had not the wealth of the large land owners. Here is where Raiffeisen was guilty of another heresy. Credit, to him, signified faith. He believed that the average man was honest and that communities were dependably so. He, therefore, felt that he could command the required capital by "capitalizing the people's honesty." Accordingly, with little money but with unlimited faith, the first *Raiffeisen* bank was organized.

The principle upon which cooperative credit rests is mutual responsibility. But where the merit of the borrower rather than the security is the primary consideration, qualified responsibility is not sufficient to inspire public confidence. Absolute and unlimited liability of the members has therefore been adopted as one of the fundamentals of the *Raiffeisen* system. Such responsibility is

feasible only where the relationship between the members is close and intimate, their knowledge of one another's character and needs adequate and complete, and they are in a position to see that the borrower makes proper use of the loan and to discover any disposition on his part to treat his obligations lightly. These conditions are to be found only in associations whose membership is small and whose operations are restricted to a limited area. The *Raiffeisen* system therefore is the system *par excellence* of the small local bank.

The growth of these banks has been stupendous. In 1908 Germany alone had 16,092 cooperative credit banks of various kinds with a total membership of 2,202,950. It should not be assumed, however, that they had easy sailing. Not the least of the numerous obstacles they had to overcome was an inimical and harassing government bureaucracy. Gradually obstacles were surmounted and obstructions removed. The idea of cooperative credit gained headway and the number of banks increased with great rapidity. Even the government saw its error and in 1895 established a bank for the special purpose of loaning them money. The need of central organizations soon became felt and resulted in the organization of central banks to act as financial clearing houses and of federations to act as moral and educational clearing houses. In 1909 the National Federation had 12,614 constituent banks with a membership of 1,163,186. These banks loaned out during that year a total of $214,694,794. Their working capital was $461,089,632 of which but eleven per cent was from outside sources, the balance having been supplied by their members, chiefly in the form of deposits which amounted to eighty-five per cent of the working capital.

Cooperative credit as an institution did not long remain exclusively German. It became a world movement. Italy followed in 1883. Austria fell into line in 1886, Ireland in 1895, and France in 1899. Russia has its cooperative credit banks; so has India. In 1909 Japan, "the Yankee of the East," had 1,886 cooperative credit associations with a membership of 167,760. The dominant influence of cooperative credit in the world of finance is evidenced by the vastness of its business operations. It was estimated that the outstanding loans of a more or less cooperative character in continental Europe in 1897 aggregated a total of $4,600,000,000.

Singularly, in a movement of such world-wide import, the United States has been content to remain a passive spectator. While

it is true that private investors and our existing banking institutions do in a crude way supply the need of long-time or mortgage credit, short-time credit is virtually non-existent, and the average American farmer must still depend for his annual working capital upon the generosity of his neighbors, the forbearance of the local storekeeper, or the cupidity of the usurer.

However, both land credit of the *Crédit Foncier* type and co-operative agricultural credit of the *Raiffeisen* type have found a foothold in this country, although in a very limited field. The honor of introducing these two systems of credit into the United States belongs to a philanthropic organization, The Jewish Agricultural and Industrial Aid Society. The society was organized in 1900 with the object of assisting Jewish immigrants in the large cities to go into farming. Its funds are derived from the large fortune bequeathed to charity by the well-known French philanthropist, the late Baron de Hirsch. It is a New York corporation with headquarters in New York City, although its operations extend to nearly every state in the Union. The society has as its trustees some of the leading American Jews, Mr. Jacob H. Schiff being one of its incorporators.

In its essentials the credit system of The Jewish Agricultural Society differs little, if any, from that of the *Crédit Foncier* and other agrarian banks. But here is where the difference becomes marked. The society's funds being limited, it does not as a rule loan where the funds are elsewhere obtainable. It rarely, therefore, makes loans on first mortgage. Most of its loans are on second mortgage and not a few on third and even fourth mortgages supplemented sometimes by chattel mortgage or other collateral. The society loans up to seventy-five per cent of the value of the land, although in special cases it has loaned even beyond the land value. During the last twelve years it has granted 2,178 loans amounting to $1,256,114.05. The loans average around five hundred dollars. They are repayable in moderate annual instalments, their average duration being about ten years. The interest charge is four per cent. Considering that the security taken by the society is mainly substandard, it speaks well for the farmer as a debtor when it is shown that the repayments during the last twelve years amounted to twenty-six per cent of the total loaned and the losses less than three per cent.

So much for land credit. As for strictly agricultural or short-time credit, while the society felt that this form of credit was within the scope of its work, it found itself unable to cope with the situation. With headquarters in New York and a clientele scattered from Maine to California, the society could not keep in sufficiently close touch with the borrower to permit of its extending personal credit.

To obviate these difficulties the society decided upon the adoption of the *Raiffeisen* system of cooperative credit. In 1909 it set about to organize cooperative agricultural credit associations in the Jewish farming communities in which it was interested, although, owing to legal difficulties, the first of these organizations did not come into existence till May 1, 1911.

All told, the Jewish Agricultural Society organized eight Farmers' Credit Unions—four in New York and four in Connecticut. Four more are now in the process of organization in other states. Each of them raised five hundred dollars through the sale of shares to its members and the society loaned them one thousand dollars, that is, two dollars for every dollar of their own. These loans to the Credit Unions are secured by promissory notes bearing interest at the rate of two per cent. According to their reports for the fiscal year ending September 30, 1912, their total membership numbers 240 and their outstanding shares 844, making a total capital of $4,220. The average length of time they have been doing business is ten months, during which period they granted 342 loans aggregating $23,375, nearly six times their share capital. Their net profits for the period amounted to $425.88, or at the rate of more than eleven per cent per annum on that capital.

As stated, these Credit Unions are modeled very much after the *Raiffeisen* system. Their operations are confined to a small area and membership is open only to members in good standing of the local Jewish farmers' association, which is itself a member of the central organization—the Federation of Jewish Farmers of America. The Credit Unions are highly democratic and are controlled entirely by the members. Shares are five dollars each and every member has the same rights and the same voice, irrespective of the number of shares he may hold. Loans are granted only for productive purposes or urgent needs. They are not granted for a period exceeding six months nor for an amount over one hundred dollars. Interest

is charged at the rate of six per cent, and the security required of the borrower is generally a promissory note with one or more responsible endorsements.

While it may be a little early at this stage for these pioneer credit banks on American soil to show their full effect, some of the results of an adequate system of cooperative credit have already manifested themselves in the communities in which they exist. The farmer finds no difficulty in obtaining a moderate loan for productive purposes quickly and cheaply. The pernicious activity of the local usurer has thus been largely curtailed and the overbearance of the local storekeeper is in evidence no longer. Not the least important is the moral and educational effect of these associations. The Credit Unions have endowed their members with a high sense of mutual responsibility and have stimulated them to further effort in the direction of cooperation and mutual self-help.

Does all this suggest nothing whatever to us? It is true that the question of agricultural credit is beginning to receive considerable attention in this country. By order of President Taft the United States diplomatic representatives abroad made a study of the rural credit systems of the countries to which they were accredited, and only recently he had the governors of the states for a conference at the White House on the same subject. The Southern Commercial Congress, too, is agitating the appointment of a select commission to go abroad to study the question. There also is a movement afoot for a government commission for the same purpose. While the commission idea has no less an advocate than David Lubin, the American delegate at the International Institute of Agriculture at Rome, I am inclined to agree with Ambassador Herrick, who says in his report to the President:

"The time has now arrived for action in the United States. Very little can now be gained by further study in the European field. The investigations which are being carried on by the agencies mentioned in this report have already gathered nearly all the material required concerning the working principles, business methods, and achievement of the farm and land-credit systems."

What is needed is not a commission of study but one of action. We have learned all that we are going to learn of the European credit systems without actually putting our hands to it. To my mind, in order to establish cooperative credit in the United States,

we must have (1) legislation to facilitate the incorporation of such associations; (2) education to bring to the American farmer a true appreciation of the benefits of such associations; and (3) organization, that is, leadership to perform the actual task of organizing and starting these associations.

The operations of these banks are extremely simple. Any man with a modicum of horse sense and a smattering of bookkeeping is quite competent to take charge of the management of a cooperative credit bank. The business of a Credit Union is far less intricate than the daily operations of the average farmer. What the European and Asiatic ignorant peasantry have done the American farmer can also do. Considering, too, what has been accomplished abroad by the various land banks and by a philanthropic organization with limited means here, what could not an American land bank, commanding the confidence and the resources of the entire country, accomplish?

Meanwhile, the cry of "back to the farm" rings hollow when our experienced farmers and their sons are compelled to abandon their farms because they are denied the financial facilities to conduct them properly. Let us not blame the farmer for not getting the most out of his farming operations and at the same time withhold from him the only means that makes profitable farming possible. Just a little scientific financing and there will be little to worry about scientific farming.